MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BAC2664 – AUDITING

(All Sections/Groups)

10 July 2023
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 4 pages excluding the cover page with 4 questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

The payment for goods and services represents a significant activity for all entities. This activity directly reduces balances in liability accounts in particular accounts payable.

Required:

Below is the six transaction related audit objectives for cash disbursement.

(i) Explain **TWO (2)** internal controls for each of the six transaction related audit objectives. (12 marks)

(ii) Explain **TWO (2)** tests of control to test the effectiveness of internal controls in (i) above. (13 marks)

TRANSACTION RELATED AUDIT OBJECTIVE	INTERNAL CONTROLS	TESTS OF CONTROL
1. Recorded cash disbursements are for goods and services actually received (existence).		
2. Existing cash disbursement transactions are recorded (completeness).		
3. Recorded cash disbursement transactions are accurate (accuracy).		

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4. Cash disbursement transactions are properly classified (classification).		
5. Cash disbursement transactions are recorded on the correct dates (timing).		
6. Cash disbursement transactions are properly included in the accounts payable master file and are properly summarized (posting and summarization).		

(Total: 25 marks)

QUESTION 2

(a) Illustrate by briefly discussing each of the following types of documents and indicate the class of transactions in which they are commonly used.

(i) customer order
(ii) remittance advice
(iii) sales returns and allowance journal
(iv) shipping document
(v) uncollectible account authorization form

(6 marks)

(b) Present the **FOUR (4)** most important audit objectives for capital stock and briefly discuss how the auditor typically verifies each of the four objectives.

(10 marks)

(c) Produce **FIVE (5)** substantive analytical procedures used in the audit of prepaid insurance and insurance expense?

(5 marks)

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(d) You have been assigned to the acquisition and payment cycle as part of your auditing responsibilities. As a senior auditor, briefly present each of the **FOUR (4)** business functions for the acquisition and payment cycle to a staff assistant.
(4 marks)

(Total: 25 marks)

QUESTION 3

a) A system of internal control consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals.

Required:

Describe the three broad objectives of management when designing effective internal control. (6 marks)

b) The following are partial descriptions of internal controls for different companies engaged in the manufacturing business:

1. When Mr. Ali orders materials, he sends a duplicate purchase order to the receiving account department. During the delivery of materials, Mr. Raju, the receiving clerk, records the receipt of shipment on this purchase order and then sends the purchase order to the accounting department, where it is used to record materials purchased and accounts payable. The materials are transported to the storage area by forklifts. The additional purchased quantities are recorded on storage records.

2. Every day, hundreds of employees clock in using time cards at Generous Motors Sdn. Bhd. The time keepers collect these cards once a week and deliver them to the computer department, which handles data entry. There, the data on these time cards are entered into the computer. The entered data are used in the preparation of the labour cost distribution records, the payroll journal, and the payroll checks. The treasurer, Ms. Lim, compares the payroll journal with the payroll checks, signs the checks, and returns them to Mr. Chan, the supervisor of the computer department. The payroll checks are distributed to the employees by Mr. Chan.

3. The smallest branch of Beauty Cosmetics employs Ms. Koo, the branch manager, and her sales assistant, Ms. Janet. The branch uses a bank account to pay expenses. The account is kept in the name of "Beauty Cosmetics-Special Account". To pay expenses, checks must be signed by Ms. Koo or by the treasurer, Mr. Jalil. Ms. Koo receives the cancelled checks and bank statements. She reconciles the branch account

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herself and files cancelled checks and bank statements in her records. She also periodically prepares reports of cash disbursements and sends them to the home office.

Required:

i) Assess the deficiencies in internal control for each of these situations. (11 marks)

ii) Provide the solution on how you would improve the internal controls for each company. (8 marks)

(Total: 25 marks)

QUESTION 4

International Standards of Auditing (ISA) provides uniform wording for the auditor's report which would enable users to understand the language of audit reports.

Required:

a) Present the auditor's standard unqualified audit report which contains the eight distinct parts. (16 marks)

b) Illustrate the **THREE (3)** conditions that require a departure from an unqualified audit opinion and with one example for each of those conditions. (9 marks)

(Total: 25 marks)

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